



THE CITY OF SAN DIEGO

DATE: June 28, 2011

TO: Hildred Pepper Jr., Director of Purchasing & Contracting City of San Diego

FROM: Eduardo Luna, City Auditor

SUBJECT: **Central Stores Agreed-Upon Procedures Inventory Count – FY2011**

We performed the agreed-upon procedures for the FY2011 inventory count as required by San Diego Municipal Code §22.0501. The procedures which we agreed to perform and with which you concurred, consisted of comparing the City's physical inventory in its three storerooms to the inventory stock record in SAP. The agreed-upon procedures and the results of our work in the report attached were provided in draft to Central Stores for review and comments. Your response can be found after page four of this report.

We conducted our work in accordance with Generally Accepted Government Auditing Standards, which incorporate certain financial audit and attestation standards established by the American Institute of Certified Public Accountants. These standards provide guidance on performing and reporting on the results of agreed-upon procedures. Purchasing & Contracting is responsible for the adequacy of these agreed-upon procedures to meet your objectives, and we make no representation in that respect. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you. We completed our review on June 14, 2011. Our review is intended solely for the information and use of the management of the City and is not intended to be and should not be used by anyone other than these specified parties.

OFFICE OF THE CITY AUDITOR
1010 SECOND AVENUE, SUITE 1400 • SAN DIEGO, CA 92101
PHONE (619) 533-3165, FAX (619) 533-3036

TO REPORT FRAUD, WASTE, OR ABUSE, CALL OUR FRAUD HOTLINE: (866) 809-3500

We would like to thank Central Stores staff for their assistance and cooperation during the audit. The City Auditor staff members responsible for this report include Judy Zellers, Kyle Elser, and Chris Constantin.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Eduardo Luna". The signature is written in dark ink and is positioned above a horizontal line.

Eduardo Luna
City Auditor

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Honorable Audit Committee Members
Jay M. Goldstone, Chief Operating Officer
Wally Hill, Assistant Chief Operating Officer
Mary Lewis, Chief Financial Officer
Jeff Jungers, Stores Operations Supervisor
Steve Fragoso, Supervising Storekeeper
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst

Central Stores Agreed-Upon Procedures Inventory Count – FY2011

Background

Central Stores

Central Stores is a division of Purchasing & Contracting, which reports to the Assistant Chief Operating Officer. The Division contracts with vendors to supply frequently used materials and to sell these materials to City departments. In addition, Central Stores assesses a five percent surcharge on sales to offset its administrative expenses.

Central Stores administers three storerooms, one of which is operated and staffed by the San Diego Fire Department.

San Diego Municipal Code

Section §22.0501 (Storerooms—Stock Records—Inventory) of the Municipal Code states,

During the course of, but prior to the end of each fiscal year, the Auditor shall cause an inventory to be taken of all items in the storerooms and warehouses of the City which are then under the supervision of the Purchasing Agent and shall compare such inventory with the stock record to be kept by the Purchasing Agent.

In accordance with §22.0501, the Office of the City Auditor has undertaken a count of the City's inventory at its three storerooms; the results are contained below.

Procedures

The following were the agreed-upon procedures conducted in the FY2011 inventory count:

- *Obtained an electronic version of stock records that is kept by the Purchasing Agent and selected a sample, by storeroom, based on a 99% confidence level and 8% confidence interval.*
- *Conducted physical inventory counts of the sample at the City's three storerooms and compared the results of the physical inventory counts to the stock records.*
- *Provided the results of the inventory counts, by storeroom, to Purchasing Agent.*

Results

A total of 230 stock items were sampled and counted with a SAP inventory value of \$201,339.99. Of the stock sampled, we found that the physical count of items on hand did not match the City inventory records in 30 instances. As a result, the actual inventory value of stock items tested is \$1,311.70 or .65%, less than Central Stores' SAP records.

The table below reflects the results of the count—performed on June 3 - 6, 2011—by storeroom.

Storeroom	Total Number of Stock Items	Total Inventory Value ¹	Sample Number of Stock Items ²	Sample Inventory Value	Number of Items Over/Under ³	Total Value of Items Over/(Under)	Value of Items Over/(Under) as % of Sample Value
1	1,125	\$1,031,025.73	91	\$103,142.89	19	(\$1,221.27)	-1.18%
2	1,502	\$1,365,282.90	119	\$91,739.83	8	\$232.97	0.25%
42♦	280	\$105,799.29	20	\$6,457.27	3	(\$323.40)	-5.01%
Totals	2,907	\$2,502,107.92	230	\$201,339.99	30	(\$1,311.70)	-0.65%

Source: Office of the City Auditor.

♦ Storeroom 42 is operated by the San Diego Fire Department.

¹ Inventory value as of May 31, 2011.

² “Sample Number of Stock Items” refers to the number of stock item categories that we counted (i.e. Screwdriver, Wrench Pipe, etc.)

³ “Number of Items Over/Under” refers to total categories of items sampled that had discrepancies when compared to number of items that should be on hand per the inventory system.



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: June 27, 2011

TO: Eduardo Luna, City Auditor

FROM: Hildred Pepper Jr., Director of Purchasing & Contracting

SUBJECT: Central Stores Agreed-Upon Procedures Inventory Count- FY11

Central Stores has reviewed the stock item discrepancy table presented in the results of the FY11 Inventory Count annual audit. Central Stores has identified one item that was originally found to be a discrepancy between the quantity in SAP and the physical count where the item was on hand at Store 1. This item was found during the reconciliation process after the assigned Principal Auditor completed the physical count. The item was stock # 22037339, Form TP-1508-Vehicle Inspection Reports. The missing fifty-eight pads were damaged during the recent winter rain storms and were stored upstairs, separated from the usable stock at the shelf due to being water damaged from leaks in the roof at Store 1. Central Stores was holding this material in a separate area and will be charging them from stock as damaged inventory prior to the close of FY11. This charge off due to water damage will have an impact on the overall value of items over/short at Store 1 and also in the overall totals (see table below). The missing fifty-eight pads represented a value of (\$809.10) which would make the overall value of items over/under at -0.25% vs. -0.65%.

Storeroom	Total Number of Stock Items	Total Inventory Value	Sample Number of Stock Items	Sample Inventory Value	Number of Items Over/Under	Total Value of Items Over/Under	Value of Items Over/Under as % of Sample Value
1	1,125	\$1,031,025.73	91	\$103,142.89	18	(\$412.17)	-0.40%
Totals	2,907	\$2,502,107.92	230	\$201,339.99	29	(\$502.60)	-0.25%

Also, Central Stores, in conjunction with the Business Office, completed a storeroom consolidation project at the end of FY10. Two existing storerooms that were staffed and operated by City departments other than Purchasing & Contracting (PD & Library) were consolidated into Storeroom 1. The consolidation has resulted in improved inventory accuracy in the annual Central Stores Inventory Audit as evidenced in the improvement of the overall value of items over/under outlined below.

FY09 Value of Items Over/Under	-3.48%
FY10 Value of Items Over/Under	1.40%
FY11 Value of items Over/Under	-0.25%*

We would like to thank the City Auditor staff for their assistance in our annual audit. This is a very productive process for Central Stores each year in order to measure our efficiency in managing the City's Inventory Asset account.

* Inclusive of damaged items